

GRANTSVILLE CITY CORPORATION

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3-4
MANAGEMENT'S DISCUSSION:	
Management's Discussion and Analysis	6-12
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22-23
NOTES TO FINANCIAL STATEMENTS	25-40
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	42
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Redevelopment Agency	43
OTHER SUPPLEMENTARY INFORMATION:	
Combining Fund Statements:	
Combining Balance Sheet - Nonmajor Governmental Funds	45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	46
Schedule of Impact Fees	47
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48-49
Independent Auditors' Report on State of Utah Legal Compliance	50-51



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INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and
Members of the City Council
Grantsville City Corporation, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grantsville City Corporation, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grantsville City Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grantsville City Corporation, Utah, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2006, on our consideration of Grantsville City Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 42 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grantsville City Corporation's basic financial statements. The combining nonmajor fund financial statements and schedule of impact fees are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Cummins, Collins, Gray & Johnson

December 7, 2006

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2006

As management of Grantsville City Corporation, we offer readers of the Grantsville City financial statements this narrative overview and analysis of the financial activities of Grantsville City for the fiscal year ended June 30, 2006.

Financial Highlights

- Total net assets increased by \$2,141,418.
- Total general fund revenues, including taxes, exceeded total general fund expenditures by \$270,065.
- Total net assets in the business-type activities increased by \$895,258.
- Total revenues from all sources were \$6,758,719.
- The total cost of all City programs was \$4,617,301.
- Actual resources received in the general fund were \$203,425 less than budgeted while actual expenditures were \$436,447 less than budgeted.
- At the end of the current fiscal year, unreserved fund balance in the general fund was \$1,048,974 or 35% of total general fund expenditures.

Overview of the financial Statements

This discussion and analysis is intended to serve as an introduction to Grantsville City's basic financial statements. Grantsville City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of Grantsville City's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of Grantsville City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Grantsville City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Grantsville City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Grantsville City include general

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

government, public safety, highways and public works, and parks and recreation. The business-type activities of Grantsville City include water, sewer, and garbage utilities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Grantsville City, like any other state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Grantsville City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Grantsville City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund and Redevelopment Agency Fund which are considered to be major funds. Data from the other three governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Grantsville City adopts an annual appropriated budget for all its fund types. A budgetary comparison statement has been provided for the general and redevelopment agency funds to demonstrate compliance with this budget.

Proprietary funds. Grantsville City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Grantsville City uses enterprise funds to account for its Water Utility Fund, Sewer Utility Fund, and Garbage Utility Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Utility Fund, Sewer Utility Fund, and Garbage Utility Fund, all of which are considered to be major funds of Grantsville City.

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Grantsville City, assets exceeded liabilities by \$15,259,188 at the close of the most recent fiscal year.

By far the largest portion of Grantsville City's net assets (\$9,503,980) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. Grantsville City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Grantsville City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 5,209,074	\$ 2,662,926	\$ 3,249,575	\$ 3,271,104	\$ 8,458,649	\$ 5,934,030
Capital assets	2,420,192	1,803,061	9,712,788	9,615,077	12,132,980	11,418,138
Total assets	<u>\$ 7,629,266</u>	<u>\$ 4,465,987</u>	<u>\$12,962,363</u>	<u>\$12,886,181</u>	<u>\$20,591,629</u>	<u>\$17,352,168</u>
Other liabilities	\$ 991,852	\$ 630,912	\$ 320,400	\$ 404,476	\$ 1,312,252	\$ 1,035,388
Long-term liabilities outstanding	2,260,189	704,010	1,760,000	2,495,000	4,020,189	3,199,010
Total liabilities	<u>\$ 3,252,041</u>	<u>\$ 1,334,922</u>	<u>\$ 2,080,400</u>	<u>\$ 2,899,476</u>	<u>\$ 5,332,441</u>	<u>\$ 4,234,398</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 1,753,192	\$ 695,061	\$ 7,750,788	\$ 6,846,077	\$ 9,503,980	\$ 7,541,138
Restricted	3,034,846	788,128	1,344,261	1,953,524	4,379,107	2,741,652
Unrestricted	(410,813)	1,647,876	1,786,914	1,187,104	1,376,101	2,834,980
Total net assets	<u>\$ 4,377,225</u>	<u>\$ 3,131,065</u>	<u>\$10,881,963</u>	<u>\$ 9,986,705</u>	<u>\$15,259,188</u>	<u>\$13,117,770</u>

An additional portion of Grantsville City's net assets (\$4,379,107) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,376,101) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Grantsville City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its business-type activities. Unrestricted net assets in the governmental activities had a negative balance at the end of the current fiscal year.

There was an increase of \$2,141,418 in total net assets in the current year. This increase is comprised of a \$1,246,160 increase in governmental activities and a \$895,258 increase in business-type activities.

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for service	\$ 1,037,791	\$ 927,669	\$ 1,974,315	\$ 1,920,905	\$ 3,012,106	\$ 2,848,574
Operating grants and contributions	340,311	453,375	-	120,000	340,311	573,375
Capital grants and contributions	126,803	25,468	422,245	403,852	549,048	429,320
General revenues:						
Property taxes	1,568,242	835,565	-	-	1,568,242	835,565
General sales and use tax	765,173	637,719	-	-	765,173	637,719
Franchise tax	315,094	231,303	-	-	315,094	231,303
Highway tax	10,785	9,421	-	-	10,785	9,421
Unrestricted investment earnings	91,519	34,961	100,858	58,278	192,377	93,239
Miscellaneous	<u>5,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,583</u>	<u>-</u>
Total revenues	<u>4,261,301</u>	<u>3,155,481</u>	<u>2,497,418</u>	<u>2,503,035</u>	<u>6,758,719</u>	<u>5,658,516</u>
Expenses:						
General government	987,126	645,533	-	-	987,126	645,533
Public safety	1,336,685	958,343	-	-	1,336,685	958,343
Highways and public works	286,673	267,601	-	-	286,673	267,601
Parks and recreation	357,580	274,243	-	-	357,580	274,243
Interest on long-term debt	47,077	47,342	-	-	47,077	47,342
Water Utility	-	-	741,686	680,380	741,686	680,380
Sewer Utility	-	-	583,977	564,328	583,977	564,328
Garbage Utility	<u>-</u>	<u>-</u>	<u>276,497</u>	<u>250,314</u>	<u>276,497</u>	<u>250,314</u>
Total expenses	<u>3,015,141</u>	<u>2,193,062</u>	<u>1,602,160</u>	<u>1,495,022</u>	<u>4,617,301</u>	<u>3,688,084</u>
Increase in net assets before transfers	1,246,160	962,419	895,258	1,008,013	2,141,418	1,970,432
Transfers	<u>-</u>	<u>(1,249,255)</u>	<u>-</u>	<u>1,249,255</u>	<u>-</u>	<u>-</u>
Change in net assets	1,246,160	(286,836)	895,258	2,257,268	2,141,418	1,970,432
Net assets- beginning (as restated)	<u>3,131,065</u>	<u>3,417,901</u>	<u>9,986,705</u>	<u>7,729,437</u>	<u>13,117,770</u>	<u>11,147,338</u>
Net assets- ending	<u>\$ 4,377,225</u>	<u>\$ 3,131,065</u>	<u>\$10,881,963</u>	<u>\$ 9,986,705</u>	<u>\$15,259,188</u>	<u>\$13,117,770</u>

Governmental activities. Governmental activities increased Grantsville City's net assets by \$1,246,160. The increase in governmental activities is primarily explained by the following:

- The City received its first property tax increment from the Wal-Mart Distribution Center (approximately \$783,000).

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Expense and Program Revenue – Governmental Activities

	<u>Expense</u>	<u>Program Revenue</u>	<u>Net Governmental Activities</u>
General government	\$ 987,126	\$ 726,860	\$ (260,266)
Public safety	1,336,685	271,120	(1,065,565)
Highways and public works	286,673	395,320	108,647
Parks and recreation	357,580	111,605	(245,975)
Interest on long-term debt	47,077	—	(47,077)
 Total Governmental Activities	 <u>\$ 3,015,141</u>	 <u>\$ 1,504,905</u>	 <u>(1,510,236)</u>
 General revenues:			
Property taxes			1,568,242
General sales and use tax			765,173
Franchise tax			315,094
Highway tax			10,785
Unrestricted investment earnings			91,519
Miscellaneous			5,583
TOTAL GENERAL REVENUES			<u>2,756,396</u>
 CHANGE IN NET ASSETS			 1,246,160
NET ASSETS – BEGINNING (AS RESTATED)			<u>3,131,065</u>
NET ASSETS - ENDING			<u>\$ 4,377,225</u>

Business-type activities. Business-type activities increased Grantsville City's net assets by \$895,258. The increase in business-type activities is primarily due to:

- Additional water, sewer, and garbage revenue as a result of 7% growth.
- Increase in demand for water at the Deseret Peak Complex.

Expenses and Program Revenues – Business-type Activities

	<u>Expense</u>	<u>Program Revenue</u>	<u>Net Business-type Activities</u>
Water Utility	\$ 741,686	\$ 1,263,037	\$ 521,351
Sewer Utility	583,977	818,900	234,923
Garbage Utility	276,497	314,623	38,126
 TOTAL	 <u>\$ 1,602,160</u>	 <u>\$ 2,396,560</u>	 <u>\$ 794,400</u>

Financial Analysis of the Government's Funds

As noted earlier, Grantsville City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental funds. The focus of Grantsville City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Grantsville City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Grantsville City's governmental funds reported combined ending fund balances of \$4,082,253. Approximately 26% of this total amount or \$1,047,407 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for a variety of other restricted purposes.

The general fund is the chief operating fund of Grantsville City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,048,974, while total fund balance reached \$2,065,330. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 35% of total general fund expenditures, while total fund balance represents 68% of that amount.

Proprietary funds. Grantsville City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility Fund at the end of the year amounted to \$791,399, for the Sewer Utility Fund, unrestricted net assets amounted to \$750,119, and for the Garbage Utility Fund, unrestricted net assets amounted to \$245,396.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were substantial (\$592,757 increase in appropriations or 21% of the original expenditure budget). Key factor contributing to the increase include the following:

- Fire station cost estimates increased; therefore, additional funds were appropriated.
- Higher than expected growth led to an increase in budgeted planning and zoning expenditures.
- Additional appropriations were made for parks projects.

Actual expenditures were \$436,447 less than budgeted expenditures. Key factors contributing to this variance include the following:

- Actual growth was less than anticipated; therefore, planning and zoning expenditures were less than budgeted.
- Certain park projects were not completed prior to year end.

Capital Assets and Debt Administration

Capital assets. Grantsville City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$12,132,980 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities and roads. The total net increase in Grantsville City's investment in capital assets for the current fiscal year was \$714,842.

GRANTSVILLE CITY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Major capital asset events during the current fiscal year included the following:

- Vehicles – \$154,000
- Land for J. Reuben Clark Farm – \$256,000
- Street improvements from developers – \$130,000

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 730,332	\$ 474,379	\$ –	\$ –	\$ 730,332	\$ 474,379
Buildings	610,285	629,406	433,170	457,886	1,043,455	1,087,292
Improvements	140,463	148,312	9,006,376	8,928,945	9,146,839	9,077,257
Machinery and equipment	364,715	287,177	273,242	228,246	637,957	515,423
Infrastructure	368,611	263,787	–	–	368,611	263,787
Construction-in-progress	205,786	–	–	–	205,786	–
TOTAL	\$ 2,420,192	\$ 1,803,061	\$ 9,712,788	\$ 9,615,077	\$12,132,980	\$11,418,138

Additional information on Grantsville City's capital assets can be found at Note 5.

Long-term debt. At the end of the current fiscal year, Grantsville City had total bonded debt outstanding of \$4,629,000. All of Grantsville City's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

Outstanding Debt Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue bonds	\$ 2,667,000	\$ 1,108,000	\$ 1,962,000	\$ 2,769,000	\$ 4,629,000	\$ 3,877,000

Grantsville City's total debt increased by \$752,000 (19%) during the current fiscal year, as a result of the issuance of \$2,000,000 lease revenue bonds offset by principal payments made on existing bonds.

Additional information on Grantsville City's long-term debt can be found in Note 8.

Requests for Information

This financial report is designed to provide a general overview of Grantsville City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Recorder, 429 East Main Street, Grantsville, Utah 84029.

BASIC FINANCIAL STATEMENTS

GRANTSVILLE CITY CORPORATION**STATEMENT OF NET ASSETS****JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 1,228,348	\$ 1,123,501	\$ 2,351,849
Accounts receivable - net	—	149,349	149,349
Special assessment taxes receivable	489	—	489
Taxes receivable	816,253	—	816,253
Other receivables	798	—	798
Inventories	161,623	62,961	224,584
Prepaid expenses	96,508	—	96,508
Internal balances	(357,794)	357,794	—
Due from other governmental units	56,878	—	56,878
Deferred charges	35,530	27,584	63,114
Water rights	—	184,125	184,125
Note receivable	82,725	—	82,725
Restricted assets:			
Cash and cash equivalents	3,087,716	1,344,261	4,431,977
Capital assets (net of accumulated depreciation):			
Land	730,332	—	730,332
Buildings	610,285	433,170	1,043,455
Improvements	140,463	9,006,376	9,146,839
Machinery and equipment	364,715	273,242	637,957
Infrastructure	368,611	—	368,611
Construction in progress	<u>205,786</u>	<u>—</u>	<u>205,786</u>
TOTAL ASSETS	<u>\$ 7,629,266</u>	<u>\$12,962,363</u>	<u>\$ 20,591,629</u>
LIABILITIES:			
Accounts payable and accrued liabilities	\$ 484,493	\$ 110,345	\$ 594,838
Accrued interest payable	13,846	8,055	21,901
Noncurrent liabilities:			
Due within one year	493,513	202,000	695,513
Due in more than one year	<u>2,260,189</u>	<u>1,760,000</u>	<u>4,020,189</u>
TOTAL LIABILITIES	<u>\$ 3,252,041</u>	<u>\$ 2,080,400</u>	<u>\$ 5,332,441</u>
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 1,753,192	\$ 7,750,788	\$ 9,503,980
Restricted for:			
Public safety	2,237,025	—	2,237,025
Highways and public works	613,547	—	613,547
Parks and recreation	175,756	—	175,756
Debt service	8,518	211,896	220,414
Water projects	—	397,803	397,803
Sewer projects	—	734,562	734,562
Unrestricted	<u>(410,813)</u>	<u>1,786,914</u>	<u>1,376,101</u>
TOTAL NET ASSETS	<u>\$ 4,377,225</u>	<u>\$10,881,963</u>	<u>\$ 15,259,188</u>

The notes to the financial statements are an integral part of this statement.

GRANTSVILLE CITY CORPORATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
General government	\$ 987,126	\$ 726,860	\$ -	\$ -	\$ (260,266)	\$ (260,266)
Public safety	1,336,685	199,326	71,794	-	(1,065,565)	(1,065,565)
Highways and public works	286,673	-	268,517	126,803	108,647	108,647
Parks and recreation	357,580	111,605	-	-	(245,975)	(245,975)
Interest on long-term debt	47,077	-	-	-	(47,077)	(47,077)
TOTAL GOVERNMENTAL ACTIVITIES	3,015,141	1,037,791	340,311	126,803	(1,510,236)	(1,510,236)
Business-type activities:						
Water utility	741,686	840,792	-	422,245	-	521,351
Sewer utility	583,977	818,900	-	-	-	234,923
Garbage utility	276,497	314,623	-	-	-	38,126
TOTAL BUSINESS-TYPE ACTIVITIES	1,602,160	1,974,315	-	422,245	-	794,400
TOTAL	\$ 4,617,301	\$ 3,012,106	\$ 340,311	\$ 549,048	(1,510,236)	(715,836)
General revenues:						
Property taxes					1,568,242	1,568,242
General sales and use tax					765,173	765,173
Energy sales and use tax					315,094	315,094
Franchise tax					10,785	10,785
Unrestricted investment earnings					91,519	100,858
Miscellaneous					5,583	5,583
TOTAL GENERAL REVENUES					2,756,396	2,857,254
CHANGE IN NET ASSETS					1,246,160	2,141,418
NET ASSETS - BEGINNING					3,048,340	13,035,045
Adjustment for note receivable (note 3)					82,725	82,725
NET ASSETS - BEGINNING (AS RESTATED)					3,131,065	13,117,770
NET ASSETS - ENDING					\$ 4,377,225	\$ 15,259,188

The notes to the financial statements are an integral part of this statement.

GRANTSVILLE CITY CORPORATION
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General Fund	Capital Projects Fund	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 687,529	\$ 361,267	\$ 177,623	\$ 1,929	\$ 1,228,348
Receivables (net):					
Special assessment	—	—	—	489	489
Taxes	816,253	—	—	—	816,253
Other	798	—	—	—	798
Intergovernmental	56,878	—	—	—	56,878
Inventories	161,623	—	—	—	161,623
Prepaid expenses	96,508	—	—	—	96,508
Due from other funds	—	72,546	—	—	72,546
Note receivable	82,725	—	—	—	82,725
Cash and cash equivalents - restricted	<u>1,069,226</u>	<u>2,009,972</u>	<u>—</u>	<u>8,518</u>	<u>3,087,716</u>
TOTAL ASSETS	<u>\$ 2,971,540</u>	<u>\$ 2,443,785</u>	<u>\$ 177,623</u>	<u>\$ 10,936</u>	<u>\$ 5,603,884</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 299,412	\$ 185,081	\$ —	\$ —	\$ 484,493
Notes payable - interfund	—	335,256	95,084	—	430,340
Deferred revenue	<u>606,798</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>606,798</u>
TOTAL LIABILITIES	<u>906,210</u>	<u>520,337</u>	<u>95,084</u>	<u>—</u>	<u>1,521,631</u>
Fund Balances:					
Reserved for:					
Roads	613,547	—	—	—	613,547
Capital improvements	402,809	2,009,972	—	—	2,412,781
Debt service	—	—	—	8,518	8,518
Unreserved, reported in:					
General fund	1,048,974	—	—	—	1,048,974
Capital projects funds	—	(86,524)	—	—	(86,524)
Special revenue funds	<u>—</u>	<u>—</u>	<u>82,539</u>	<u>2,418</u>	<u>84,957</u>
TOTAL FUND BALANCES	<u>2,065,330</u>	<u>1,923,448</u>	<u>82,539</u>	<u>10,936</u>	<u>4,082,253</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,971,540</u>	<u>\$ 2,443,785</u>	<u>\$ 177,623</u>	<u>\$ 10,936</u>	<u>\$ 5,603,884</u>

The notes to the financial statements are an integral part of this statement.

GRANTSVILLE CITY CORPORATION

**RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2006

Total fund balances - governmental fund types	\$ 4,082,253
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,420,192
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	606,798
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(2,732,018)</u>
Net assets of governmental activities	<u>\$ 4,377,225</u>

GRANTSVILLE CITY CORPORATION

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Projects Fund	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 1,831,628	\$ -	\$ 783,351	\$ -	\$ 2,614,979
Licenses and permits	263,953	-	-	-	263,953
Intergovernmental	360,311	-	-	-	360,311
Charges for services	434,778	-	-	-	434,778
Impact fees	119,966	-	-	-	119,966
Fines and forfeitures	155,703	-	-	-	155,703
Investment earnings	81,473	9,972	-	74	91,519
Miscellaneous revenue	43,391	-	5,583	-	48,974
TOTAL REVENUES	<u>3,291,203</u>	<u>9,972</u>	<u>788,934</u>	<u>74</u>	<u>4,090,183</u>
EXPENDITURES:					
Current:					
General government	958,200	-	-	-	958,200
Public safety	1,331,062	177,397	-	-	1,508,459
Highways and public works	320,615	7,684	657	-	328,956
Parks and recreation	389,236	255,875	-	-	645,111
Debt service:					
Principal	-	-	441,000	-	441,000
Interest and fiscal charges	-	-	44,107	-	44,107
Bond issuance costs	22,025	-	-	-	22,025
TOTAL EXPENDITURES	<u>3,021,138</u>	<u>440,956</u>	<u>485,764</u>	<u>-</u>	<u>3,947,858</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>270,065</u>	<u>(430,984)</u>	<u>303,170</u>	<u>74</u>	<u>142,325</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	29,232	-	-	8,500	37,732
Transfers out	(8,500)	-	-	(29,232)	(37,732)
Lease revenue bonds issued	-	2,000,000	-	-	2,000,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>20,732</u>	<u>2,000,000</u>	<u>-</u>	<u>(20,732)</u>	<u>2,000,000</u>
NET CHANGE IN FUND BALANCES	<u>290,797</u>	<u>1,569,016</u>	<u>303,170</u>	<u>(20,658)</u>	<u>2,142,325</u>
FUND BALANCES - BEGINNING	1,691,808	354,432	(220,631)	31,594	1,857,203
Adjustment for note receivable (note 3)	82,725	-	-	-	82,725
FUND BALANCES - BEGINNING (AS RESTATED)	<u>1,774,533</u>	<u>354,432</u>	<u>(220,631)</u>	<u>31,594</u>	<u>1,939,928</u>
FUND BALANCES - ENDING	<u>\$ 2,065,330</u>	<u>\$ 1,923,448</u>	<u>\$ 82,539</u>	<u>\$ 10,936</u>	<u>\$ 4,082,253</u>

The notes to the financial statements are an integral part of this statement.

GRANTSVILLE CITY CORPORATION

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 2,142,325
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	490,328
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets	126,803
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	44,315
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net affect of these differences in the treatment of long-term debt and related items	(1,536,975)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	<u>(20,636)</u>
Change in net assets of governmental activities	<u>\$ 1,246,160</u>

GRANTSVILLE CITY CORPORATION

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>	<u>Total</u>
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 515,146	\$ 350,697	\$ 257,658	\$ 1,123,501
Accounts receivable - net	69,498	50,559	29,292	149,349
Inventories	57,706	5,255	—	62,961
TOTAL CURRENT ASSETS	<u>642,350</u>	<u>406,511</u>	<u>286,950</u>	<u>1,335,811</u>
Noncurrent assets:				
Restricted cash and cash equivalents	494,270	849,991	—	1,344,261
Notes receivable - interfund	—	430,340	—	430,340
Land, equipment, buildings and improvements	7,908,359	6,993,349	—	14,901,708
Less: accumulated depreciation	(2,463,838)	(2,725,082)	—	(5,188,920)
Water rights	184,125	—	—	184,125
Deferred bond financing costs - net	24,033	3,551	—	27,584
TOTAL NONCURRENT ASSETS	<u>6,146,949</u>	<u>5,552,149</u>	<u>—</u>	<u>11,699,098</u>
TOTAL ASSETS	<u>6,789,299</u>	<u>5,958,660</u>	<u>286,950</u>	<u>13,034,909</u>
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	51,054	17,737	41,554	110,345
Due to other funds	—	72,546	—	72,546
Accrued interest payable	8,055	—	—	8,055
Revenue bonds payable	38,000	164,000	—	202,000
TOTAL CURRENT LIABILITIES	<u>97,109</u>	<u>254,283</u>	<u>41,554</u>	<u>392,946</u>
Noncurrent liabilities:				
Revenue bonds payable	448,000	1,312,000	—	1,760,000
TOTAL NONCURRENT LIABILITIES	<u>448,000</u>	<u>1,312,000</u>	<u>—</u>	<u>1,760,000</u>
TOTAL LIABILITIES	<u>545,109</u>	<u>1,566,283</u>	<u>41,554</u>	<u>2,152,946</u>
Net assets:				
Invested in capital assets, net of related debt	4,958,521	2,792,267	—	7,750,788
Restricted	494,270	849,991	—	1,344,261
Unrestricted	791,399	750,119	245,396	1,786,914
TOTAL NET ASSETS	<u>\$ 6,244,190</u>	<u>\$ 4,392,377</u>	<u>\$ 245,396</u>	<u>\$10,881,963</u>

GRANTSVILLE CITY CORPORATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>	<u>Total</u>
OPERATING REVENUES:				
Water sales	\$ 582,519	\$ —	\$ —	\$ 582,519
Sewer charges	—	542,125	—	542,125
Garbage collection charges	—	—	314,623	314,623
Impact fees	215,952	276,441	—	492,393
Connection fees	30,012	100	—	30,112
Miscellaneous	12,309	234	—	12,543
TOTAL OPERATING REVENUES	<u>840,792</u>	<u>818,900</u>	<u>314,623</u>	<u>1,974,315</u>
OPERATING EXPENSES:				
Salaries and wages	108,007	99,627	3,573	211,207
Employee benefits	52,280	51,133	1,062	104,475
Materials and supplies	226,519	154,847	26,313	407,679
Administrative	20,000	14,000	1,000	35,000
Depreciation	264,679	263,976	—	528,655
Miscellaneous	19,216	—	4,301	23,517
Waste collection and disposal	—	—	240,248	240,248
Amortization of bond financing costs	2,060	394	—	2,454
TOTAL OPERATING EXPENSES	<u>692,761</u>	<u>583,977</u>	<u>276,497</u>	<u>1,553,235</u>
OPERATING INCOME	<u>148,031</u>	<u>234,923</u>	<u>38,126</u>	<u>421,080</u>
NONOPERATING REVENUES (EXPENSES):				
Interest revenue	52,285	48,327	246	100,858
Interest expense and fiscal charges	(48,925)	—	—	(48,925)
TOTAL NONOPERATING REVENUES	<u>3,360</u>	<u>48,327</u>	<u>246</u>	<u>51,933</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	151,391	283,250	38,372	473,013
Capital contributions	422,245	—	—	422,245
CHANGE IN NET ASSETS	573,636	283,250	38,372	895,258
TOTAL NET ASSETS - BEGINNING	<u>5,670,554</u>	<u>4,109,127</u>	<u>207,024</u>	<u>9,986,705</u>
TOTAL NET ASSETS - ENDING	<u>\$ 6,244,190</u>	<u>\$ 4,392,377</u>	<u>\$ 245,396</u>	<u>\$10,881,963</u>

GRANTSVILLE CITY CORPORATION

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 819,318	\$ 817,201	\$ 311,640	\$ 1,948,159
Payments to suppliers	(450,567)	(250,289)	(276,029)	(976,885)
Payments to employees	(160,287)	(150,760)	(4,635)	(315,682)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>208,464</u>	<u>416,152</u>	<u>30,976</u>	<u>655,592</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital contributions	378,235	—	—	378,235
Purchases of capital assets	(75,795)	(250,686)	—	(326,481)
Principal paid on capital debt	(643,000)	(164,000)	—	(807,000)
Interest paid on capital debt	(60,996)	—	—	(60,996)
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(401,556)</u>	<u>(414,686)</u>	<u>—</u>	<u>(816,242)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	52,285	48,327	246	100,858
Purchase of water rights	(326,250)	—	—	(326,250)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(273,965)</u>	<u>48,327</u>	<u>246</u>	<u>(225,392)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(467,057)	49,793	31,222	(386,042)
CASH AND CASH EQUIVALENTS - BEGINNING (including \$1,094,220 and \$859,304 for the water and sewer utility funds, respectively, reported in restricted accounts)	<u>1,476,473</u>	<u>1,150,895</u>	<u>226,436</u>	<u>2,853,804</u>
CASH AND CASH EQUIVALENTS - ENDING (including \$494,270 and \$849,991 for the water and sewer utility funds, respectively, reported in restricted accounts)	<u>\$ 1,009,416</u>	<u>\$ 1,200,688</u>	<u>\$ 257,658</u>	<u>\$ 2,467,762</u>

GRANTSVILLE CITY CORPORATION
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Garbage Utility</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 148,031	\$ 234,923	\$ 38,126	\$ 421,080
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	264,679	263,976	—	528,655
Amortization expense	2,060	394	—	2,454
(Increase) in accounts receivable	(21,474)	(1,699)	(2,983)	(26,156)
(Increase) in inventories	(22,586)	(3,595)	—	(26,181)
Increase (decrease) in accounts payable and accrued liabilities	10,863	(6,701)	(4,167)	(5)
(Decrease) in due to other funds	(173,109)	(71,146)	—	(244,255)
TOTAL ADJUSTMENTS	60,433	181,229	(7,150)	234,512
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 208,464	\$ 416,152	\$ 30,976	\$ 655,592
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Contributed water lines	\$ 44,010	\$ —	\$ —	\$ —
Water rights exchanged for land	\$ 255,875	\$ —	\$ —	\$ —

NOTES TO FINANCIAL STATEMENTS

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Grantsville City Corporation is a municipal corporation governed by an elected mayor and a five member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. Grantsville City Corporation has no discretely presented component units and is itself not a component unit of any other entity. Each blended component unit has a June 30 year end.

Blended Component Units

The Municipal Building Authority was created by the City during fiscal year 1996. The Authority used the proceeds of tax exempt bonds to acquire capital assets for the City. The bonds are secured by a lease agreement with the City and have been retired through lease payments from the City. The Municipal Building Authority is governed by the City Council. Because the Authority's governing body is substantially the same as the City's, the financial data is included in the reporting entity using the blended method.

The City's Redevelopment Agency uses tax increment financing to support redevelopment projects within the City. The Agency is governed by the City's Mayor and City Council. Because the Agency's governing body is the same as the City's the financial data is included in the reporting entity using the blended method.

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

Grantsville City Corporation
429 East Main Street
Grantsville, UT 84029

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the resources required for major capital improvements of the City.

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The *redevelopment agency* accounts for revenues derived from specific taxes which are designated to finance particular functions of the City.

The government reports the following major proprietary funds:

The *water utility fund* accounts for the activities of the water distribution system of the City.

The *sewer utility fund* accounts for the activities of the sewage treatment plant, sewage pumping stations, and collection systems.

The *garbage utility fund* accounts for the activities of the solid waste collection system of the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Utility enterprise fund, of the Sewer Utility enterprise fund, and of the Garbage Utility enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Reconciliation of Government-wide and Fund Financial Statements

Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. As a result, there are important differences between the assets, liabilities, revenues and expense/expenditures reported on the fund financial statements and the government-wide financial statements. For example, many long-term assets and liabilities are excluded from the fund balance sheets but are included in the entity-wide financial statements. As a result there must be a reconciliation between the two statements to explain the differences. A reconciliation is included as part of the fund financial statements.

E. Budgetary Procedures and Budgetary Accounting

Budgetary procedures for the City have been established by the Uniform Fiscal Procedures Act adopted by the State of Utah, which requires the legal adoption of a budget for all funds. Furthermore, in accordance with state law, all appropriations, except capital projects fund appropriations, lapse at the end of the budget year; accordingly, no encumbrances are recorded. The basis of accounting applied to each fund budget is the same basis as the related fund's financial statements. The following are the legal procedures followed by the City:

1. On or before the first regularly scheduled meeting of the City Council in May, the City's Mayor, authorized under state statute to be appointed budget officer, submits a proposed operating budget for governmental fund types for which budgetary control is required by Utah State statute (i.e., General Fund, Capital Projects Fund, Debt Service Funds, and Special Revenue Funds), and an operating and capital budget for all proprietary fund types for the subsequent fiscal year. The budget documents include the proposed budget amounts requested by the department heads, along with the proposed budget amounts requested by the Mayor.
2. A public hearing is held to receive input on all aspects of the proposed budget. The hearing is preceded by a notice in the local newspaper. The notice is given at least seven days before the hearing and includes the time, date, and place of the hearing. All budget documents are required to be available for public inspection ten days prior to the public hearing.
3. On or before June 22, a final balanced budget must be adopted for the subsequent fiscal year beginning July 1.
4. The legal budgetary control is maintained at the departmental level. The Mayor, however, acting as budget officer, has the budget authority to transfer budget appropriations between individual line items within any department of any budgetary fund.
5. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
6. A public hearing, as required in (2) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Procedures and Budgetary Accounting (continued)

7. Monthly interim financial reports are prepared by the City Recorder and presented to the City Council. These reports contain a budgetary statement showing a comparison of budget to actual for all budgetary funds of the City. Special budgetary reports, using an operating and capital expenditure concept, are prepared for proprietary funds.

The budgets presented for the General Fund and Redevelopment Agency Fund are designated as revised budgets. Throughout the year, the City Council approves all expenditures and makes amendments to the City's budget. Near year end, the City Council makes final amendments to the budget.

The budget passed for the Capital Projects Funds is an annual budget, based on estimates of annual expenditures. This budget is not based on project length for long-term capital projects.

No budget is presented in these financial statements for the Proprietary and Fiduciary Funds. State law allows the City Council to amend the Proprietary and Fiduciary Funds budgets without public hearing or public notice.

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, the water utility, sewer utility, and garbage utility funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided, services rendered and for interfund loans or transfers. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Loans are reported as receivables and payables and are classified as "notes receivable-interfund," "notes payable-interfund," "due to other funds," or "due from other funds" on the balance sheet of the governmental fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation between the governmental fund statements and the government-wide columnar presentation.

H. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Inventories and Prepaid Items (continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

I. Restricted Cash

Certain resources set aside for bond repayment, are classified as restricted cash on the statement of net assets because their use is limited by applicable bond covenants. Other cash accounts are restricted by state law.

J. Capital Assets

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

In the government-wide financial statements and in the fund financial statements for proprietary funds, fixed assets are treated as capital assets. Capital assets include property, plant, equipment and infrastructure assets, e.g., roads, sidewalks, and similar items. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current fiscal year.

Property, plant, and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Improvements	10-50
Infrastructure	10-30
Machinery and equipment	3-30
Vehicles	5-10
Office equipment	3-5

K. Fund Equity

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity (continued)

purpose. Designations of fund balances represent tentative management plans that are subject to change.

L. Compensated Absences

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirements. Sick pay amounts are charged as wages when used.

M. Bond Discounts/Issuance Costs

In the government-wide statements costs of issuing bonds are capitalized and amortized on a straight-line basis over the life of the bonds. During the fiscal year ended June 30, 2006 the amortization expense related to deferred bond financing costs amounted to \$7,718 in governmental activities and \$2,454 in business-type activities of the government-wide financial statements.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

O. Taxes and Other Significant Revenue

Property tax is assessed, levied, and collected by the county governments in the state of Utah. The City Council is authorized by state statute (10-6-133) to levy up to a tax rate of .007 of the market value against all real and personal property located within its boundaries. Property taxes become a lien on January 1 and are levied on the first Monday of August. Taxes are due and payable on November 1 and delinquent after November 30 of each year. Taxes on an individual piece of property may be delinquent up to five years before the property is sold for delinquent taxes.

Under state statute, the County Treasurer, acting as a tax collector, must settle and disburse all current tax collections to all taxing units by the end of March following the taxing year. Delinquent taxes are collected throughout the year and disbursed to the taxing units on a routine basis.

Property tax revenues are recognized when they become available in the general fund. Amounts that are measurable but not available are recorded as deferred revenue in the general fund and revenue in the government-wide financial statements. An accrual was made for measurable but unavailable property taxes receivable in the amount of \$606,798 at June 30, 2006.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. Franchise fees are collected and remitted to the City by the telephone, electric, and natural gas companies monthly, and the cable television company semi-annually.

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$2,732,018 difference are as follows:

Bonds payable	\$ 2,667,000
Less: deferred charge for issuance costs, net of amortization	(35,530)
Accrued interest payable	13,846
Compensated absences	<u>86,702</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 2,732,018</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$490,328 difference are as follows:

Capital outlay	\$ 629,041
Depreciation expense	<u>(138,713)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	<u>\$ 490,328</u>

Another element of that reconciliation states that; "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds". The details of this \$20,636 difference are as follows:

Compensated absences	\$ (9,948)
Accrued interest	(2,970)
Amortization of issuance costs	<u>(7,718)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (20,636)</u>

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. RESTATEMENT OF NET ASSETS/FUND EQUITY

Prior Period Adjustment

During the year ended June 30, 2005, the City sold land to an entity, financed by a promissory note, to be used for construction of a low-income apartment complex. The sale of the land was improperly booked as a donation in the prior year. As a result of the error, notes receivable and net assets/fund equity are understated. A prior period adjustment is necessary to record the note receivable and reverse the donation expense in the governmental activities in the government-wide financial statements and in the general fund financial statements.

	<u>Government-Wide Financial Statements</u>
	<u>Governmental Activities</u>
NET ASSETS – BEGINNING	\$ 3,048,340
Adjustment for note receivable	<u>82,725</u>
NET ASSETS – BEGINNING (AS RESTATED)	<u>\$ 3,131,065</u>
	<u>General Fund</u>
FUND BALANCE – BEGINNING	\$ 1,691,808
Adjustment for note receivable	<u>82,725</u>
FUND BALANCE – BEGINNING (AS RESTATED)	<u>\$ 1,774,533</u>

4. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

A. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ –	\$ 200
Cash on deposit	<u>699,519</u>	<u>677,185</u>
TOTAL	<u>\$ 699,519</u>	<u>\$ 677,385</u>

WOODS CROSS CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$599,519 of the City's bank balances of \$699,519 were uninsured and uncollateralized.

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
State of Utah Public Treasurer's Investment Fund	\$6,106,441	\$6,106,441	\$ -	\$ -	\$ -

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of June 30, 2006, the City's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ 474,379	\$ 255,953	\$ —	\$ 730,332
Construction-in-progress	—	205,786	—	205,786
Total capital assets not being depreciated	474,379	461,739	—	936,118
Capital assets being depreciated:				
Buildings	834,327	—	—	834,327
Improvements	230,820	7,358	—	238,178
Machinery and equipment	1,050,939	159,945	—	1,210,884
Infrastructure	275,118	126,802	—	401,920
Total capital assets being depreciated	2,391,204	294,105	—	2,685,309

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings	\$ (204,921)	\$ (19,121)	\$ —	\$ (224,042)
Improvements	(82,508)	(15,207)	—	(97,715)
Machinery and equipment	(763,762)	(82,407)	—	(846,169)
Infrastructure	(11,331)	(21,978)	—	(33,309)
Total accumulated depreciation	(1,062,522)	(138,713)	—	(1,201,235)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>1,328,682</u>	<u>155,392</u>	<u>—</u>	<u>1,484,074</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 1,803,061</u>	<u>\$ 617,131</u>	<u>\$ —</u>	<u>\$ 2,420,192</u>
BUSINESS-TYPE ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$ —	\$ —	\$ —	\$ —
Capital assets being depreciated:				
Buildings	786,512	—	—	786,512
Improvements	12,865,923	540,211	—	13,406,134
Machinery and equipment	622,907	86,155	—	709,062
Total capital assets being depreciated	14,275,342	626,366	—	14,901,708
Less accumulated depreciation for:				
Buildings	(328,626)	(24,716)	—	(353,342)
Improvements	(3,936,978)	(462,780)	—	(4,399,758)
Machinery and equipment	(394,661)	(41,159)	—	(435,820)
Total accumulated depreciation	(4,660,265)	(528,655)	—	(5,188,920)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>9,615,077</u>	<u>97,711</u>	<u>—</u>	<u>9,712,788</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 9,615,077</u>	<u>\$ 97,711</u>	<u>\$ —</u>	<u>\$ 9,712,788</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES:

General government	\$ 24,595
Public safety	42,333
Highway and public works	55,243
Parks and recreation	<u>16,542</u>

TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES \$ 138,713

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES:

Water	\$ 264,679
Sewer	<u>263,976</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 528,655</u>

6. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund notes receivable/payable:		
Sewer utility	Capital projects	\$ 335,256
	Redevelopment agency	<u>95,084</u>
TOTAL		<u>\$ 430,340</u>
Due to/from other funds:		
Capital projects	Sewer utility	<u>\$ 72,546</u>

The interfund payable balance in the capital projects fund reflects the amount due to the sewer utility fund for a loan made in 2004 to fund the purchase of historic farm property. The interfund payable balance in the Redevelopment Agency fund reflects the amount due to the sewer utility fund for a loan made in 2004 to fund professional fees related to a sewer transmission line project in the Redevelopment Agency. Debt service on this loan will be made with tax increment proceeds received by the Redevelopment Agency.

7. NOTE RECEIVABLE

The note receivable consists of an amount due from an entity for a land purchase in 2005. The original amount of the note was \$82,725. The note receivable bears interest at 1%, and principal and all accrued interest is due on April 12, 2035.

8. LONG-TERM DEBT

Revenue Bonds

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years was \$1,108,000 for governmental activities and \$4,008,000 for business-type activities. During the current year the 98C Water Revenue Bonds were retired. In addition, \$2,000,000 of MBA lease revenue bonds were issued during the year to finance the construction of a fire station. Revenue bonds outstanding at year end are as follows:

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. LONG-TERM DEBT (CONTINUED)

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Waste water treatment – Sewer Utility	0.00%	\$1,476,000
Culinary water system – Water Utility	5.00%	486,000
Sewer transmission lines – Redevelopment Agency	3.60 - 4.50%	667,000
Fire station – Municipal Building Authority	0.00%	<u>2,000,000</u>
 TOTAL		 <u>\$4,629,000</u>

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 648,000	\$ 52,531
2008	465,000	102,345
2009	246,000	88,985
2010	251,000	85,485
2011	254,000	81,765
2012-2016	1,167,000	347,635
2017-2021	285,000	260,400
2022-2026	337,000	206,990
2027-2031	401,000	143,710
2032-2036	476,000	68,425
2037-2041	<u>99,000</u>	<u>3,465</u>
 TOTAL	 <u>\$ 4,629,000</u>	 <u>\$ 1,441,736</u>

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
GOVERNMENTAL ACTIVITIES:					
Revenue bonds payable	\$ 1,108,000	\$ 2,000,000	\$ (441,000)	\$ 2,667,000	\$ 446,000
Compensated absences	76,754	9,948	—	86,702	47,513
GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	<u>\$ 1,184,754</u>	<u>\$ 2,009,948</u>	<u>\$ (441,000)</u>	<u>\$ 2,753,702</u>	<u>\$ 493,513</u>
BUSINESS-TYPE ACTIVITIES:					
Revenue bonds payable	\$ 2,769,000	\$ —	\$ (807,000)	\$ 1,962,000	\$ 202,000
BUSINESS-TYPE ACTIVITY					
LONG-TERM LIABILITIES	<u>\$ 2,769,000</u>	<u>\$ —</u>	<u>\$ (807,000)</u>	<u>\$ 1,962,000</u>	<u>\$ 202,000</u>

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. RETIREMENT PLANS

Grantsville City Corporation contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Retirement System for employers with Social Security coverage, both of which are cost sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide retirement benefits, annual cost of living allowances, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling (800) 365-8772.

Plan members in the Public Safety Contributory System are required to contribute 12.29% of their annual covered salary (all or part may be paid by the employer for the employee) and Grantsville City Corporation is required to contribute 7.95% of their annual covered salary. In the Public Safety Noncontributory System, Grantsville City is required to contribute 19.34% of covered salary. In the Local Governmental Noncontributory Retirement System, Grantsville City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2006, 2005, and 2004 were \$75,298, \$68,490, and \$54,170 respectively. Salary subject to retirement contributions were \$678,965, \$617,584, and \$563,097 for the same years.

Contributions to the Public Safety Contributory System for the years ending June 30, 2006, 2005, and 2004 were \$45,470, \$42,484, and \$39,815 respectively. Salary subject to retirement contributions were \$224,661, \$212,524, and \$236,853 for the same years.

Contributions to the Public Safety Noncontributory System for the years ending June 30, 2006, 2005, and 2004 were \$11,045, \$15,828, and \$8,455, respectively. Salary subject to retirement contributions were \$57,109, \$82,955, and \$52,062, for the same years.

The Contributions were equal to the required contributions for each year.

Employees of the City may also participate in a 401(k) Defined Contribution Plan. The City's contributions to the Plan for June 30, 2006, 2005, and 2004 were \$81,754, \$47,303, and \$38,514 respectively. Employee contributions to the 401(k) Plan for June 30, 2006, 2005, and 2004, were \$21,542, \$16,909, and \$15,704 respectively.

10. REDEVELOPMENT AGENCY

In accordance with Utah Code Section 17B-4-1305(2), the City's Redevelopment Agency is required to disclose the following information for fiscal year 2006:

GRANTSVILLE CITY CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. REDEVELOPMENT AGENCY (CONTINUED)

A. The tax increment collected by the Agency for each project area is as follows:

<u>Project Area</u>	<u>2006</u>
Industrial Park	<u>\$ 783,351</u>
TOTAL INCREMENT RECEIVED	<u>\$ 783,351</u>

B. There were no amounts of tax increment paid to any taxing agency during the year.

C. The outstanding principal amount at June 30, 2006, of bonds issued to finance the costs associated with the project area was \$667,000.

D. The agency expended the following during the year:

	<u>2006</u>
Administrative costs	\$ 657
Principal on bonds	441,000
Interest on bonds	<u>44,107</u>
TOTAL EXPENDITURES	<u>\$ 485,764</u>

11. COMMITMENTS

During the year, the City entered into a contract for construction of a fire station. As of June 30, 2006, there was approximately \$2,085,000 outstanding on the contract.

During the year, the City entered into contracts for street paving and sidewalk projects. As of June 30, 2006, there was approximately \$280,000 outstanding on the contracts.

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the City entered into a contract for a storm drain project. The amount of the contract is approximately \$335,000.

13. RISK MANAGEMENT

The City, as a provider of municipal services, is exposed to a number of risks. Among these are: police enforcement liability, auto liability, road maintenance exposure, public official's errors and omissions, and property losses. The City has determined that the inherent risk of providing services necessitates implementing risk management policies and purchasing commercial liability insurance. This combination has resulted in fewer claims against the City and sufficient protection when claims occur. The City has not incurred any claims in excess of its coverage for any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

GRANTSVILLE CITY CORPORATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
REVENUES:				
Taxes	\$ 1,495,500	\$ 1,748,500	\$ 1,831,628	\$ 83,128
Licenses and permits	163,000	265,400	263,953	(1,447)
Intergovernmental	623,428	604,428	360,311	(244,117)
Charges for services	290,600	432,400	434,778	2,378
Impact fees	88,000	121,000	119,966	(1,034)
Fines and forfeitures	160,100	160,700	155,703	(4,997)
Investment earnings	35,000	117,000	81,473	(35,527)
Miscellaneous revenues	9,200	45,200	43,391	(1,809)
TOTAL REVENUES	<u>2,864,828</u>	<u>3,494,628</u>	<u>3,291,203</u>	<u>(203,425)</u>
EXPENDITURES:				
Current:				
General government:				
Administrative	425,373	673,335	586,326	87,009
Judicial	143,250	134,000	114,593	19,407
City Hall	62,600	62,600	55,454	7,146
Election	6,000	7,500	7,489	11
Planning and zoning	100,400	303,400	194,338	109,062
Public safety:				
Police department	837,100	884,950	833,396	51,554
Fire department	201,105	399,600	354,182	45,418
Building inspection	109,700	141,800	132,625	9,175
Animal control	55,000	55,000	32,884	22,116
Highways and public works:				
Street department	170,500	237,000	218,041	18,959
Class "C" roads	366,000	82,000	102,574	(20,574)
Parks and recreation:				
Parks	341,700	412,800	334,064	78,736
Cemetery	46,100	63,600	55,172	8,428
TOTAL EXPENDITURES	<u>2,864,828</u>	<u>3,457,585</u>	<u>3,021,138</u>	<u>436,447</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>37,043</u>	<u>270,065</u>	<u>233,022</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	<u>-</u>	<u>(300,000)</u>	<u>20,732</u>	<u>320,732</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(300,000)</u>	<u>20,732</u>	<u>320,732</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(262,957)</u>	<u>290,797</u>	<u>553,754</u>
FUND BALANCES - BEGINNING (AS RESTATED)	<u>1,774,533</u>	<u>1,774,533</u>	<u>1,774,533</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,774,533</u>	<u>\$ 1,511,576</u>	<u>\$ 2,065,330</u>	<u>\$ 553,754</u>

GRANTSVILLE CITY CORPORATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL

REDEVELOPMENT AGENCY

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget- Positive (Negative)</u>
REVENUES:				
Taxes	\$ 745,283	\$ 745,283	\$ 783,351	\$ 38,068
Miscellaneous	—	—	5,583	5,583
TOTAL REVENUES	<u>745,283</u>	<u>745,283</u>	<u>788,934</u>	<u>43,651</u>
EXPENDITURES:				
Current:				
General government	1,100	1,100	—	1,100
Highways and public works	—	—	657	(657)
Debt service:				
Principal retirement	—	—	441,000	(441,000)
Interest and fiscal charges	<u>744,183</u>	<u>744,183</u>	<u>44,107</u>	<u>700,076</u>
TOTAL EXPENDITURES	<u>745,283</u>	<u>745,283</u>	<u>485,764</u>	<u>259,519</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>—</u>	<u>—</u>	<u>303,170</u>	<u>303,170</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of bonds	<u>1,108,000</u>	<u>1,108,000</u>	<u>—</u>	<u>(1,108,000)</u>
TOTAL OTHER FINANCING SOURCES	<u>1,108,000</u>	<u>1,108,000</u>	<u>—</u>	<u>(1,108,000)</u>
NET CHANGE IN FUND BALANCES	1,108,000	1,108,000	303,170	(804,830)
FUND BALANCES - BEGINNING OF YEAR	<u>(220,631)</u>	<u>(220,631)</u>	<u>(220,631)</u>	<u>—</u>
FUND BALANCES - END OF YEAR	<u>\$ 887,369</u>	<u>\$ 887,369</u>	<u>\$ 82,539</u>	<u>\$ (804,830)</u>

OTHER SUPPLEMENTARY INFORMATION

GRANTSVILLE CITY CORPORATION

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Permanent Fund</u>	
	<u>Municipal Building Authority Bonds</u>	<u>Special Improvement District</u>	<u>Cemetery Perpetual Care</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	\$ —	\$ 1,929	\$ —	\$ 1,929
Special assessment receivable	—	489	—	489
Cash and cash equivalents – restricted	<u>8,518</u>	<u>—</u>	<u>—</u>	<u>8,518</u>
TOTAL ASSETS	<u>\$ 8,518</u>	<u>\$ 2,418</u>	<u>\$ —</u>	<u>\$ 10,936</u>
LIABILITIES AND FUND BALANCES:				
Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Fund balances:				
Reserved for debt service	8,518	—	—	8,518
Unreserved	<u>—</u>	<u>2,418</u>	<u>—</u>	<u>2,418</u>
TOTAL FUND BALANCES	<u>8,518</u>	<u>2,418</u>	<u>—</u>	<u>10,936</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,518</u>	<u>\$ 2,418</u>	<u>\$ —</u>	<u>\$ 10,936</u>

GRANTSVILLE CITY CORPORATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Permanent Fund</u>	
	<u>Municipal Building Authority Bonds</u>	<u>Special Improvement District</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES:				
Investment earnings	\$ 18	\$ 56	\$ —	\$ 74
TOTAL REVENUES	18	56	—	74
EXPENDITURES:				
Debt service:				
Principal	—	—	—	—
Interest and fiscal charges	—	—	—	—
TOTAL EXPENDITURES	—	—	—	—
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18	56	—	74
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	8,500	—	(29,232)	(20,732)
TOTAL OTHER FINANCING (USES)	8,500	—	(29,232)	(20,732)
NET CHANGE IN FUND BALANCES	8,518	56	(29,232)	(20,658)
FUND BALANCES - BEGINNING	—	2,362	29,232	31,594
FUND BALANCES - ENDING	\$ 8,518	\$ 2,418	\$ —	\$ 10,936

GRANTSVILLE CITY CORPORATION

SCHEDULE OF IMPACT FEES

FOR THE YEAR ENDED JUNE 30, 2006

Grantsville City Corporation collects water facility, water source, sewer, parks, and public safety impact fees. The following is a recap of the impact fees outstanding by year of collection:

<u>Year Collected</u>	<u>Water Facility</u>	<u>Water Source</u>	<u>Sewer</u>	<u>Parks</u>	<u>Public Safety</u>
2001	\$ -	\$ -	\$ 83,957	-	-
2002	-	-	81,362	-	-
2003	-	-	61,767	-	-
2004	-	-	57,207	20,479	-
2005	-	228,455	190,934	69,984	180,579
2006	<u>57,604</u>	<u>111,744</u>	<u>259,335</u>	<u>85,293</u>	<u>46,474</u>
TOTAL	<u>\$ 57,604</u>	<u>\$ 340,199</u>	<u>\$ 734,562</u>	<u>\$ 175,756</u>	<u>\$ 227,053</u>

The following capital projects are planned to use the impact fees shown above:

<u>Planned Capital Project</u>	<u>Projected Cost</u>	<u>Anticipated Start Date</u>	<u>Impact Fee Type</u>
Fire Station	\$ 500,000	2007	Public Safety
Sewer Mechanical Plant	\$ 2,500,000	2008	Sewer
Redesign Disinfecting Ammonia Treatment (Sewer)	\$ 1,515,000	2008	Sewer
Matthew's Lane Sewer Collector	\$ 240,000	2008	Sewer
Arena	\$ 70,000	2009	Parks
RV Park	\$ 15,000	2010	Parks
West Bench Water Pipeline	\$ 1,315,000	2011	Water Facility
West Water Tank	\$ 1,052,000	2011	Water Facility
West Well	\$ 848,000	2011	Water Facility
South Hale Pipeline Extension	\$ 270,000	2016	Water Facility



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council
Grantsville City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grantsville City Corporation as of and for the year ended June 30, 2006, which collectively comprise Grantsville City Corporation's basic financial statements and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grantsville City Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Grantsville City Corporation's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in a separate management letter dated December 7, 2006 as items 1, 2, 4, and 5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2 and 5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grantsville City Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in a separate management letter dated December 7, 2006 as items 7 through 12.

This report is intended for the information of the City Council, management, and applicable regulatory agencies. It is not intended to be and should not be used by anyone other than these specified parties.

Pinnock, Robbins, Poy & Andrews

December 7, 2006



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Wade K. Watkins, CPA

**INDEPENDENT AUDITORS' REPORT ON STATE OF
UTAH LEGAL COMPLIANCE**

To The Honorable Mayor and
Members of the City Council
Grantsville City, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grantsville City Corporation, Utah, for the year ended June 30, 2006 and have issued our report thereon dated December 7, 2006. The City received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Grantsville City Corporation's financial statements.)

State Wildland Grant

Our audit included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Liquor Law Enforcement
Cash Management	Justice Courts
Purchasing Requirements	B & C Road Funds
Budgetary Compliance	Other General Issues
Truth in Taxation and Property Tax Limitations	Uniform Building Code Standards
	Impact Fees

The City did not receive any major State grants during the year ended June 30, 2006.

The management of Grantsville City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter as items 7 through 12. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the noncompliance identified as item 10 in the accompanying management letter, Grantsville City Corporation, Utah, complied with the general compliance requirements identified above for the year ended June 30, 2006.

Sennick, Phillips, Poy & Phillips

December 7, 2006



PINNOCK, ROBBINS, POSEY & RICHINS

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Wade K. Watkins, CPA

December 7, 2006

Honorable Mayor and
Members of the City Council
Grantsville City Corporation

Grantsville City Corporation is ultimately responsible for the financial condition of the City, and for the City's compliance with finance related state and federal law. The Uniform Fiscal Procedures Act outlines the fiscal responsibilities of the governing body.

The purpose of the financial statements is to report in summary form, the financial condition of the City, and the results of its operations and changes in financial condition, and to provide information to the governing body to help them satisfy their legal and political responsibilities for determining and demonstrating compliance with the various finance related state and federal law.

During our audit we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized as follows:

INTERNAL CONTROL AND OTHER OPERATIONAL MATTERS

1. MANUAL CHECKS (prior year recommendation) (Reportable Condition)

Accounts payable checks (computer-printed) are approved at each City Council meeting (twice a month) prior to being run the following day. However, approximately half of all checks written by the City are manual checks, which are written as needed. Based on our review of the minutes of City Council meetings throughout the year, manual checks are not formally approved. Manual checks also contribute to a lack of adequate control over cash disbursements and to inefficiencies in the accounting function, since checks are immediately issued when requested.

Recommendation

We recommend that the City consider eliminating manual checks in order to provide better control over cash disbursements. We recommend that the City consider running accounts payable checks on a weekly basis, with formal approval given by the City Council either prior to the checks being written, where possible, or after the checks are issued. If the Council chooses to continue using manual checks, we recommend that all manual checks from the previous month be formally approved by the City Council at the first Council meeting of each month.

Management's Response

The City will take the recommendation for elimination of manual checks under consideration. The City Recorder has been presenting the manual checks list to the Mayor and City Council for their information and will begin seeking approval for the checks immediately.

2. ACCOUNTING ADJUSTMENTS (prior year recommendation) (Material Weakness)

During our audit, we noted many account balances that were misstated. As a result, we proposed a large number of adjusting entries. While there has been some improvement from the prior year, we are still proposing too many adjusting entries. Government Auditing Standards require that City personnel review and approve the financial statements prior to their issuance. City personnel are also responsible to make an informed judgment on the statements. The large number of adjustments necessary to bring the financial statements into compliance with generally accepted accounting principles indicates a lack of understanding of these principles.

Recommendation

We recommend that the accounting department make necessary improvements to insure that more accurate and useful financial statements are generated throughout the year, and especially at year-end.

Management's Response

The City will take action to comply.

3. OUTSTANDING CHECKS (prior year recommendation)

In the prior year, we recommended that old outstanding checks be investigated and appropriately removed from the bank reconciliation. During our audit, we noted that old outstanding items had simply been reclassified to a liability account. Based on our procedures, we noted that most of these outstanding items were voided checks that had not been recorded in the general ledger system.

Recommendation

We recommend that old outstanding checks be review monthly and that voided checks be promptly written off or otherwise appropriately removed from the bank reconciliation.

Management's Response

The City agrees with the recommendation.

4. CASH DISBURSEMENTS (Reportable Condition)

During our audit, we tested a sample of 25 cash disbursements made during the year and noted several deficiencies in the cash disbursements process. Following is a list of items noted during our test work:

1. Purchase orders are not included with the invoice, check stub, and other supporting documentation.
2. Written proper authorization is not included with the invoice.

3. Employee expense reports contain neither supervisor nor Mayor approval.
4. No supporting documentation, including invoice, is included with the check stub.
5. Authorized check signers signed checks payable to themselves (in addition to the second signature).
6. Items were coded to the incorrect general ledger account.
7. Voided checks are filed with regular cash disbursements and no voided check list is maintained.

Recommendation

We recommend that the City implement the following procedures to strengthen controls over the cash disbursements process:

1. Purchase orders should be issued by authorized accounting personnel and with proper written authorization before payment is made on an invoice. Purchase orders should be attached to check stub and invoices in the paid vendor file.
2. Written approval of disbursements by supervisors or the Mayor (as defined by the City's purchasing policies) should be included directly on the vendor invoice.
3. Employee expense reports should be authorized (in writing) by the employee's supervisor and/or the Mayor.
4. Invoices and other supporting documentation should always accompany the check stub in the vendor file.
5. Expense reimbursement checks payable to an authorized check signer should be signed by the other two signers.
6. A qualified individual should regularly review cash disbursement transactions to verify that items are posted to the appropriate general ledger expense/expenditure account.
7. Voided checks should be filed separately from regular cash disbursement checks. This will aid in the cash reconciliation process.

Management's Response

The City agrees with these recommendations and will implement them immediately.

5. GENERAL LEDGER ACCOUNT BALANCE RECONCILIATION (Material Weakness)

During our audit, we noted that many balance sheet account balances were improperly stated. The individuals involved in the City's financial processes perform their assigned tasks, but no review and reconciliation of the overall general ledger and financial statements is taking place.

Recommendation

We recommend that a qualified individual be assigned to perform a monthly reconciliation of all general ledger accounts on a consistent, monthly basis, to verify that transactions are properly classified and to reconcile general ledger balances to supporting documentation.

Management's Response

The City agrees with these recommendations and will begin to implement procedures.

6. **PHYSICAL INVENTORY**

During our audit, we noted that the City has a substantial inventory of crushed rock for use in various City projects. This inventory is reported on the balance sheet of the general fund. No physical inventory was conducted at June 30, 2006.

Recommendation

We recommend that the City inspect the amount of inventory on hand as of fiscal year end and document the procedures performed and the quantities noted both for crushed rock and supplies inventories.

Management's Response

The City will make every effort to assure that inventory will be taken on June 30th each year.

LEGAL COMPLIANCE MATTERS

7. **OVER-EXPENDITURE OF LEGALLY ADOPTED BUDGETS (prior year recommendation)**

During our audit, we noted that the following department over-expended its legally adopted budget:

- a. General Fund—Class "C" roads department \$ 20,574

Recommendation

We recommend that City management carefully prepare and monitor all financial data (particularly year-end accruals) so that the City will be able to follow all legal fiscal requirements.

Management's Response

The City will take steps to make sure that expenses fall within adopted budget limits.

8. **GENERAL FUND BALANCE (prior year recommendation)**

During our audit, we noted the general fund balance is over the legal allowable limit of 18% of total budgeted revenue of the general fund.

Recommendation

We recommend that the City take steps to insure that the general fund balance is within legal allowable limits.

Management's Response

The City will strive to comply with this requirement.

9. **UNIFORM BUILDING CODE STANDARDS (prior year recommendation)**

During our audit, we noted that the building permit fee surcharge collections quarterly report for the third quarter of 2005 understated building permit fees collected. Only one month of revenue was included in the quarterly report. The report was subsequently amended and additional surcharges were remitted to the State three months after the original report was filed.

Recommendation

We recommend that the City implement policies to insure that building permit fee charge collections quarterly reports are properly prepared in a timely manner, and that the proper surcharge due be remitted to the State each quarter.

Management's Response

The reports have been corrected and personnel are in place to assure that the future reports are filed on time.

10. **IMPACT FEES – ALLOWABLE EXPENDITURES**

During our audit, we noted that water source impact fee funds were used to acquire water rights in February 2006, which is a permissible use of the impact fees. In March 2006, the City exchanged a portion of these water rights for land to expand existing parks. Thus, water source impact fee funds were effectively used to purchase parks land.

Recommendation

We recommend that the City implement policies to insure that impact fees are spent for system improvements for public facilities identified in the respective capital facilities plans, and for system improvements for the specific public facility type for which the fees were collected, in accordance with *Utah Code 11-36-302(1)*.

Management's Response

The City feels that it complied with State law and will consult legal counsel for any changes that need to be made.

11. **IMPACT FEES – ACCOUNTING**

During our audit, we noted that approximately \$12,630 of water facility impact fees were misclassified as water source impact fees. The City maintains separate cash accounts for each impact fee type. The City-prepared impact fee reconciliation identified additional errors between the schedule and the impact fee cash balances. However, the errors were not investigated and no cash balances were adjusted. Cities are required to deposit impact fee receipts into the appropriate ledger accounts. Based on our procedures, impact fees are not being properly accounted for in accordance with State law.

Recommendation

We recommend that the City consider reviewing impact fee revenues, expenditures, and cash balances on a monthly basis to identify posting or other errors, so that exceptions found can be resolved in a timely manner.

Management's Response

The City will take steps to assure compliance with this requirement.

12. COURT SURCHARGE REMITTANCES

During our audit, we noted that the court surcharges for May 2006 were not remitted by the tenth of the following month, as required by State law.

Recommendation

We recommend that the surcharges and accompanying reports be submitted each month by the tenth of the following month.

Management's Response

City personnel have taken action to assure compliance with this requirement.

STATUS OF OTHER PRIOR YEAR RECOMMENDATIONS

PERPETUAL CARE FUND

The City's cemetery perpetual care fund is being used to accumulate funds for expansion of and improvements to the cemetery. All cemetery activities are accounted for in the general fund. GASB Statement No. 34 classifies perpetual care funds as "permanent funds," which are reported as governmental funds and included in government-wide activities of the government-wide financial statements. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used. The City's perpetual care fund is not being utilized in this manner.

Recommendation

We recommend that the City close out this fund and move the restricted cash account to the general fund, where the cemetery activities are currently accounted for.

Status

Implemented

BUDGETARY REQUIREMENTS (prior year recommendation)

During our audit, we noted that the City did not give the required notice of its budget hearing. State law requires that the City publish notice of the hearing at least seven days prior to the public hearing.

Recommendation

We recommend that the City take care to insure that proper notice is given of all budget hearings.

Status

Implemented

AUDIT REPORT SUBMISSION (prior year recommendation)

The State of Utah requires that a copy of the completed audit report be submitted to the State Auditor's Office and UDOT within six months of the fiscal year end. The current report was not completed and submitted on a timely basis.

Recommendation

We recommend that the City take all steps necessary to insure that the records of the City are complete, accurate, and ready for the audit so that the audit report can be completed and timely submitted as required.

Status

Implemented

NEGATIVE FUND BALANCE

We noted the Redevelopment Agency Fund has a negative fund balance as of June 30, 2005. Utah law does not allow funds to carry negative fund balances.

Recommendation

We recommend that the City review the negative fund balance to determine if revenues generated during the year ended June 30, 2006 will cover the negative fund balance.

Status

Implemented

IMPACT FEES – PERIOD OF AVAILABILITY

State law requires that impact fees be expended or encumbered for a permissible use within six years of their receipt, with the following exceptions:

- a. The City identifies in writing an extraordinary and compelling reason why the fees should be held longer than six years; and
- b. The City identifies in writing an absolute date by which the fees will be expended.

During our audit, we noted that certain sewer impact fees have been held longer than six years. The City has plans to upgrade its sewer treatment facilities; however, they have not explained this in writing nor given an absolute date by which fees will be expended.

Recommendation

We recommend that the City either use impact fees that have been held longer than six years for a permissible use or develop a written plan for the use of these fees, including an absolute date by which the fees will be expended.

Status

Implemented

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We sincerely appreciate the cooperation we received from the management and employees of the City during the course of the audit. It has been a pleasure working with them. We appreciate the opportunity to again serve as your auditors. If you have any questions regarding any of the matters discussed, please feel free to contact us.

A handwritten signature in cursive script that reads "Pinnock, Robbins, Posey & Richins".

PINNOCK, ROBBINS, POSEY & RICHINS, PC